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Lawsuit Accuses U. of Phoenix of Protecting Its Default Rate at Students' Expense

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Three former students at the University of Phoenix are seeking class-action status for a federal lawsuit that accuses the giant for-profit institution of using improper tactics to minimize its "true" record on student-loan defaults.

According to the lawsuit, which was filed last month in the U.S. District Court in Little Rock, Ark., the university "effectively pays off" the loans of students who withdraw from the institution, then demands repayment from those students under terms more onerous than those of the original federally guaranteed loans.

By canceling those students' federal-loan debt, the suit argues, the university prevents those loans from being considered in its official default rate and keeps its rate from suffering.

But "the decision to cancel the loan is for the student to make," the lawsuit asserts, and the company has no right to interfere with the contracts students have made with their lenders.

The lawsuit names both the university and its parent company, the Apollo Group, as defendants.

Colleges with high default rates can be barred from the federal student-loan programs or face other restrictions, and statistics suggest that students who withdraw before completing a program of study are at greater risk of defaulting on loans.

Phoenix's default rate is one of the lowest among for-profit colleges.

The students who brought the lawsuit had obtained federally guaranteed loans through banks but withdrew from the university soon after enrolling. The university, which held their student-loan money, should have debited the amounts of tuition they owed from those accounts, the lawsuit states. Instead, it says, the university sent the federal money back to the original lenders "without the knowledge or consent of the students," then sought to collect tuition owed directly from the students.

Other for-profit college companies follow similar payback policies for students who have obtained student loans and later withdraw from classes without completing them.

The lawsuit against Phoenix maintains that the practice hurts students because they lose the more-generous loan-repayment terms of the federal loan programs, which provide for below-market interest rates and grace periods. When the university attempts to collect from them directly, it says, "unsuspecting students are routinely bombarded with calls, letters, and e-mails from UOP [University of Phoenix] to collect tuition, along with threats that refusal to pay will result in referral to collection agencies and negative reports on their credit."

Two of the former students attended Phoenix in Little Rock. The other attended in West Los Angeles. None of their lawyers could be reached for comment on Tuesday. The suit seeks an injunction barring the university from the practice, and actual and punitive damages on behalf of thousands of borrowers affected by the practice over the past four years.

The university, in a written statement, said, "Regrettably, the plaintiffs in this matter have misconstrued the Higher Education Act and related regulations at issue. In January 2008, the U.S. Department of Education notified University of Phoenix that, based upon its review, the university's refund policies are compliant" with federal student-aid rules.

In May, the Department of Education's inspector general took steps to revoke the right of another for-profit college, Technical Career Institute, of New York, to participate in the loan program after it found that college paying off loans for students who had defaulted on their loans. ([*The Chronicle*](#), May 30, 2008)